UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF OHIO

EASTERN DIVISION

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|---|---|
| JOHN SEFLER, Individually and On Behalf of All Others Similarly Situated, Plaintiff, | No. |
| vs. | Judge |
| TWEEN BRANDS, INC., MICHAEL W. RAYDEN, KENNETH T. STEVENS and PAUL C. CARBONE, Defendants. | CLASS ACTION |
| | DEMAND FOR JURY TRIAL |

COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS

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## INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of Tween Brands, Inc. ("Tween" or the "Company") between February 21, 2007 and August 21, 2007 (the "Class Period"), against Tween and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 ("1934 Act").

2. Tween is an operator of two specialty retailing brands, Limited Too and Justice stores, which sell apparel, footwear, and lifestyle and personal care products to girls aged seven to 14. Tween is headquartered in New Albany, Ohio.

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company's business and prospects. As a result of defendants' false statements, Tween stock traded at artificially inflated prices during the Class Period, reaching a high of $46.54 per share on July 6, 2007.

4. On August 22, 2007, before the market opened, Tween issued a press release entitled "Tween Brands Reports Second Quarter Sales and Earnings." The press release stated in part:

> Tween Brands, Inc., today reported its operating results for the second quarter ended August 4, 2007. As compared to the results for the second quarter ended July 29, 2006:
>
> – Net sales increased 15% to $213.7 million from $185.8 million attributable to a 15% increase in store count;
>
> – Comparable store sales decreased 2% versus a 10% increase for second quarter 2006. By brand, Justice comparable store sales increased 13%, while Limited Too's decreased 4%;
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> – The gross income rate declined 170 basis points primarily due to a lower merchandise margin and higher buying and occupancy costs as a percentage of net sales;
>
> – Store operating, general and administrative expenses as a rate of sales increased 120 basis points primarily due to higher marketing costs, principally from increased Justice catazine circulation;

- Net income for the 2007 quarter was $2.1 million, or $0.07 per share, compared to net income of $5.9 million, or $0.18 per share for the 2006 period; and

- Total inventories at the end of the 2007 quarter were up 5% per square foot at cost compared to inventories at the end of the 2006 period. However, in-store inventories were down 6% per square foot at cost, in-line with the company's previous guidance. The difference is attributable in part to inventory additions resulting from the company's higher level of direct sourcing.

"Our sales for the quarter failed to meet our expectations in large part because we underestimated the impact of so many schools in our markets moving their back-to-school start dates later, as well as Texas and Florida shifting their state sales tax holidays from July to August," said Tween Brands Chairman and CEO Mike Rayden. "These shifts aggravated what had been a decline in retail traffic and lower store transactions throughout the quarter."

Third and Fourth Quarter Outlook

The company said that it is estimating earnings per diluted share for the third quarter ending November 3, 2007 of $.40 to $.45, below the $.58 per diluted share reported for the like period last year. The principal reason for the comparatively lower forecasted range of earnings is a revised estimate of the calendar shift on the company's quarterly sales and earnings comparisons. In accordance with the 2007 retail calendar, the third quarter shifted the higher sales volume first week of August into second quarter, and moved the lower volume first week of November into third quarter. Also, Limited Too plans to take markdowns earlier in the season compared to last year to better position inventory going into fourth quarter. The third quarter guidance assumes a consolidated comparable store sales percentage increase in the mid single digit range. By brand, that would equate to an increase for Limited Too in the low single digits and an increase in the mid teens for Justice. Additionally, Tween Brands said it expects in-store inventories at the end of the third quarter to be down in the mid single digit percentage range on a cost per square foot basis.

The company also said that it expects earnings per diluted share for the fourth quarter ending February 2, 2008 to be in the range of $0.94 to $1.04, which would be a 9% to 21% increase on the $0.86 per diluted share reported for fourth quarter 2006. The 2006 quarter included the benefit from an extra week and a lower effective tax rate as a result of favorable tax settlements during the period.

As a result of Tween Brands' lower second quarter earnings and revised outlook on the third and fourth quarters, the company expects full-year earnings per diluted share of $1.80 to $1.95 compared to its previous guidance of $2.10 to $2.25. The company reported earnings per diluted share of $1.95 for fiscal 2006, which comprised 53 weeks.

Commenting on the revised earnings guidance, Mr. Rayden said, "While we are projecting positive comparable store sales for the third quarter at both of our

brands, we remain cautious regarding the current trend in retail traffic and the continuing uncertainties in the U.S. economy."

Tween Brands Store Growth

Justice opened 29 stores during the second quarter 2007, ending the period at 213 stores, an increase of 98 stores on the 115 open at end of second quarter 2006. Justice is on target to open 100 to 105 new stores in 2007.

Justice is also developing a larger format store that would be 15% to 25% bigger than the average store size today. The company said that the larger stores, the first of which should open in 2008, would allow Justice to expand existing merchandise categories, introduce new ones and increase the space used for their successful party business.

Limited Too opened four new, closed one and remodeled 16 existing stores into the more contemporary Girl's World store format, ending the period at 573 stores. Limited Too continues to plan a net increase of 25 to 30 stores and 40 to 50 remodels for 2007.

5. On this news, Tween's stock collapsed $11.00 per share to close at $27.59 per share, a decline of 29% on volume of 8 million shares, 10 times the average three-month volume. This was the largest one-day decline of the Company's shares in almost seven years.

6. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Tween had bloated inventory which it could only dispose of at significant discounts at the Company's Limited Too stores;

(b) Tween's promotional activities and increased markdowns were significantly undercutting the profit margins at the Company's Limited Too stores;

(c) Tween's increased use of direct sourcing of its inventories did generate markdown risk and consequently was having a negative effect on margins;

(d) Tween's new inventory management system was not significantly improving Tween's inventory levels and the Company's inventory levels remained excessively high;

(e) The Company's existing stores were performing badly and any sales growth was coming from the development of new stores and not from a growth in same-store sales such that future results would not be anywhere near as high as the defendants led the market to believe;

(f) Tween's guidance miss on its second quarter 2007 results was not due to the Company's underestimation of the impact of the shifting of back-to-school start dates later or due to the impact of Texas and Florida shifting their state sales tax holidays from July to August, but was due to a fundamental decline in demand for its products;

(g) Similarly, Tween's downward revision of its third quarter 2007 guidance was not due to the Company's underestimation of the impact of the calendar shift moving the first week of August out of the third quarter and into the second, but was due to fundamental problems in Tween's business; and

(h) Given the increase in competition with discount and chain-stores, the Company had no reasonable basis to make the projections it did about its 2007 results. As a result, the Company's projections issued during the Class Period about its 2007 results were at a minimum grossly reckless.

7. As a result of defendants' false statements, Tween's stock price traded at inflated levels during the Class Period and defendant Michael W. Rayden was able to sell 40% of his holdings of Tween stock. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down 41% from their Class Period high.

## JURISDICTION AND VENUE

8. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

9. (a) Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District.

(b) Tween's principal executive offices are located at 8323 Walton Parkway, New Albany, Ohio.

**PARTIES**

10. Plaintiff John Sefler purchased Tween common stock as described in the attached certification and was damaged thereby.

11. Defendant Tween is an operator of two specialty retailing brands, Limited Too and Justice stores, which sell apparel, footwear, and lifestyle and personal care products to girls aged seven to 14. Limited Too sells apparel, accessories, footwear, lifestyle and girlcare products to fashion-aware, trend-setting tween girls. Justice sells apparel, footwear, accessories and lifestyle items for tween girls.

12. Defendant Michael W. Rayden ("Rayden") is, and at all relevant times was, a director, Chairman of the Board and Chief Executive Officer ("CEO") of Tween. Additionally, Rayden served as President from 1996 until January 2007. During the Class Period, Rayden was responsible for the Company's false financial statements and reaped proceeds of over $8.7 million by selling 218,281 shares of his Tween stock or 40% of his holdings.

13. Defendant Kenneth T. Stevens ("Stevens") is, and at all relevant times was, President, Chief Operating Office ("COO"), Secretary and Treasurer of Tween. During the Class Period, Stevens was responsible for the Company's false financial statements.

14. Defendant Paul C. Carbone ("Carbone") is, and at all relevant times was, Senior Vice President, Finance of Tween and the Principal Accounting Officer of the Company. Additionally, since June 2007, Carbone has served as Chief Financial Officer ("CFO") of the Company. During the Class Period, Carbone was responsible for the Company's false financial statements.

15. Defendants Rayden, Stevens and Carbone (the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of Tween's quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein at ¶¶19-20, 22-24 and 26.

**FRAUDULENT SCHEME AND COURSE OF BUSINESS**

16. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Tween. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Tween common stock was a success, as it: (i) deceived the investing public regarding Tween's prospects and business; (ii) artificially inflated the price of Tween's common stock; (iii) allowed defendant Rayden to sell 40% of his holdings in Tween stock at artificially inflated prices; and (iv) caused plaintiff and other members of the Class to purchase Tween common stock at inflated prices.

**BACKGROUND**

17. Tween operates as a specialty retailer for tween girls in the United States. The Company primarily operates two specialty retailing concepts under the Limited Too and Justice brand names. The Company offers apparel, such as jeans, other pants, skirts, shorts, and other denim and woven bottoms; knit tops and tee-shirts; dresses and outerwear; and accessories, including jewelry, hair ornaments, hats, key chains, wallets, backpacks, purses, belts, and watches. Tween also

provides footwear, such as slippers, sandals, flip-flops, boots, and shoes; lifestyle products, including bedroom furnishings, music, stationery, electronic toys, games, candy, and party favors; girl care products, such as age-appropriate cosmetics and toiletries; and underwear, sleepwear, and swimwear for girls aged 7 to 14 years.

18. On January 8, 2007, prior to the start of the Class Period, the Company announced that it would not meet its previously announced guidance for the fourth quarter of 2006 and revised its guidance for the quarter downward. The disastrous fourth quarter results were due in large part to aggressive inventory buying engaged in by the Company in the fourth quarter of 2006. The aggressive buying reflected a higher level of markdowns causing pressure on the Company's margins and bottom line. This revised guidance caused Tween's stock to decline $5.35 per share or 13% on extremely high volume.

**DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD**

19. On February 21, 2007, Tween issued a press release entitled "Tween Brands Reports 12th Consecutive Quarterly Earnings Increase; Higher Earnings for 2007 Forecast." The press release stated in part:

> Tween Brands, Inc., today announced its operating results for the fourth quarter and fiscal year 2006 ended February 3, 2007, which included:
>
> - Fourth quarter net sales up 16% to $272.3 million;
> - Fourth quarter earnings per diluted share up 8% to $0.86, the 12th consecutive quarterly earnings increase;
> - Fiscal year sales up 17% to $883.7 million and earnings per diluted share up 22% to $1.95.
>
> Fourth Quarter Performance
>
> Tween Brands had net income of $28.2 million, or $0.86 per diluted share, on net sales of $272.3 million, for the fourteen weeks ended February 3, 2007. This compares to net income of $27.1 million, or $0.80 per diluted share, on net sales of $235.1 million, for the thirteen weeks ended January 28, 2006. The additional week in the fiscal 2006 quarter provided store sales of $11.6 million. The 2006 quarter also

included an after-tax charge of approximately $0.03 per share for the previously-disclosed costs associated with the separation agreement for a former executive officer. Earnings per diluted share, adjusted for executive severance, are $0.89.

Tween Brands had a comparable store sales increase of 2% for the 2006 quarter, including a 21% comparable store sales increase for the 92 Justice stores that were open at least one year during the quarter, and flat comparable store sales for Limited Too stores. Due to the 14th week in the period, fourth quarter 2006 comparable store sales are measured against the fourteen week period ended February 4, 2006. Tween Brands reported a fourth quarter 2005 comparable store sales increase of 6%.

In-store inventories as of February 3, 2007 were up 10% on a cost per square foot basis, when compared to inventories at the end of the first week of fiscal 2006.

Fiscal Year Performance

For the 2006 fiscal year ended February 3, 2007, Tween Brands had net income of $64.8 million, or $1.95 per diluted share, on net sales of $883.7 million. This compares to net income for fiscal 2005 of $54.5 million, or $1.60 per diluted share, on net sales of $757.9 million. Fiscal 2006 benefited from the additional week of store sales in the fourth quarter described above.

The earnings increase for 2006 was largely a result of higher net sales and lower general, administrative and store operating expenses as a rate of net sales.

Store Growth

Justice opened 18 stores during the 2006 fourth quarter, ending the year at 159 stores, an increase of 67 stores for the year. Justice plans to open approximately 100 net stores in 2007, primarily in power strip centers across the United States.

Limited Too opened 4 new, remodeled 3 existing and closed 11 underperforming stores during the quarter, ending the fiscal year with 563 stores. Current plans for 2007 call for a net increase of 20 to 30 Limited Too stores, with locations in lifestyle and specialty centers, and outlet malls, throughout the United States. Limited Too also plans to remodel 30 to 40 older format stores.

2007 Capital Budget

Tween Brands' capital budget for 2007 is $105.0 million, compared to total capital expenditures of $66.0 million in 2006. Approximately $70.0 million will be invested in opening new Justice and Limited Too stores, and remodeling older Limited Too stores. The balance will be used for the previously-announced expansion of the company's home office, as well as information technology and supply chain initiatives.

*2007 Outlook*

For the first quarter of fiscal 2007, Tween Brands expects earnings per diluted share to be in the range of $0.34 to $0.37 compared to reported earnings per diluted share of $0.35 for the first quarter 2006. The range of earnings estimates for the first quarter assumes a comparable store sales percentage increase in the low single digit range for Tween Brands, representing a percentage increase for Justice in the high teens and flat comparable store sales for Limited Too.

***For the full year 2007, Tween Brands is targeting earnings per diluted share of $2.15 to $2.25. The operating results for the 52 weeks of the 2007 fiscal year will be compared to those reported for the 53 weeks of the 2006 fiscal year. In addition, the company is projecting a higher effective tax rate for fiscal 2007 compared to 2006 because the prior year reflected various favorable tax settlements that lowered the effective income tax rate.***

20. After issuing its fiscal year 2006 financial results, Tween hosted a conference call for analysts, media representatives and investors, during which defendants represented the following:

[STEVENS:] I'd like to review our beginning of Spring season inventory position a little further. The balance sheets show total inventories up 39% or 28% per square foot; however when we look at inventory on a comparable time frame, that is 52 weeks ago, it's up 17% per square foot. This is composed of Justice up 13%, and Limited Too up 11%. The remainder of the increase is due to inventory in our direct sourcing operation in which we take ownership for a given in-store date three to four weeks earlier than outsourced inventory. Looking at the brands, we feel Justice's inventory is in good shape, and the increase is in line with forecasted sales growth in the first quarter.

Limited Too is admittedly higher than we would have liked. That said, our Spring component of the total inventory is at a similar level to last year at this time, and the initial reads on this Spring assortment are in line with our expectations from a selling standpoint. Although at higher levels than we anticipated, we believe our Fall carryover inventory at Limited Too is owned at an appropriate level, and the effects of clearing the remaining Fall goods are incorporated in our first quarter guidance.

* * *

[RAYDEN:] Thanks, Ken. Good morning, everyone. The results for the fourth quarter that Ken has just recapped, record sales and earnings, and the fact that we met the range of earnings guidance provided six weeks ago does not alter the fact that Limited Too had a disappointing holiday.

While it would be convenient to blame milder weather in December and a colder January than last year for dismal seasonal apparel sales, Limited Too's problems were largely our own doing. The sales momentum Limited Too generated up through the Thanksgiving weekend was not sustained into the first three weeks of

December, where we had anticipated a much stronger comp sales given the relatively easy comparisons to December '05. Limited Too sales decelerated further in January, thus we were forced to take even more aggressive markdowns to clear end of season apparel inventory.

***We've taken steps to address the problems of the fourth quarter and get Limited Too's business back on track. The first step has already been taken. Jill Dean is now providing full-time leadership as President of Limited Too, a role I was performing along with my corporate CEO responsibilities. Jill and her team have taken additional steps, including planning sales and markdowns much tighter to trend. And they plan to distort more buys to uptrending categories, and be more open to chase proven winners. All of us believe that Limited Too has the right fashion for Spring and we're very encouraged by our early Spring season results; however given Limited Too's fourth quarter results, we are planning the business more conservatively, including a flat comp for the first quarter.***

Our Justice business continues to meet or exceed our business objectives. New store openings are running as scheduled. We are adding five catazines this year including two in the first quarter that should benefit their top line. We're introducing new merchandise categories such as intimate apparel that will help build comp sales and the Justice birthday party program continues to add sales while introducing more and more tween girls and their moms to a great off the mall brand that's just right for girls. We're planning a Justice first quarter comp store sales increase in the high teens, and as mentioned, we are continuing to plan an aggressive store opening schedule for 2007.

With Justice's first quarter comp expectation, along with a flat comp planned at Limited Too, we estimate Tween Brands first quarter earnings per diluted share to be in the range of $0.34 to $0.37. ***For the full year, we are targeted earnings per diluted share of $2.15 to $2.25, compared to the $1.95 reported for 2006, which included the 53rd week***. The estimates for 2007 also assume a higher effective income tax rate than that experienced in 2006. With that, I'll turn it back over to Bob to introduce the Q & A. Bob

* * *

[ANALYST:] Good morning. ***Can you talk about the inventory plans at the end of the first quarter and when you expect them to normalize*** and just secondly, can you talk about Justice accretion in the fourth quarter and the expectation for '07? Thank you.

[CARBONE:] ***This is Paul. So our inventory in the first quarter, in store inventory we expect to end in the first quarter similar to where we have ended the fourth quarter, up about 10% in store on a[n] enterprise level. We believe it will normalize out by the end of the second quarter, and of course that is all those expectations are baked on our guidance for flat comps in Limited Too and then the high single teens in Justice.***

* * *

[ANALYST:] ***You said a couple of things that I was hoping you might expand on. Your comments regarding the go forward strategy at Limited Too. First, you were going to plan sales and markdowns to trend. If you could just expand on what you mean by that, and then in terms of planning the business more conservatively, are you planning sales more conservatively, or inventory more conservatively and when do you expect to have both plans sort of in line if the current sales plan is trending below inventory? Thanks.***

[RAYDEN:] ***The way we normally plan the Limited Too business is we usually plan the business, I would say, semi-aggressively, and the reason we have always done that is because of the high margin component of the business, and the risk of the markdowns is relatively low normally if the range is not too great. With the kind of IMUs we have, the cost of the markdown is minimal, especially with our ability to dispose of merchandise in other methods as well, so it's been a process of taking some chances in Limited Too. With the recent uncertainty in the business, and I'm not really thinking that we're not going to have a good season, we are just taking that risk out of the business and planning the business to what we are also budgeting the business, so we are taking the inventory risk basically out of the business and are planning to chase the goods as opposed to bet up front on categories that we believe in, so we're just taking a much more conservative posture on both sales and inventory and taking that sort of layer [sic] aggressiveness or assertiveness that we might have taken in the past out of the business.***

On the Justice side, the business is moving quite well and we've actually been in a chase mode pretty much since we've opened the business, so we're going to stay in that mode in Justice and get in that mode in Limited Too, and we expect the inventories to be well in line by the end of April which really is basically the end of the first quarter. The first quarter this year has all of our Too Bucks redemption in it as opposed to last year with the later Easter and therefore, the first quarter sales will be accelerated versus last year and that will enable us to get the inventory in line and as Ken mentioned, the excess inventory is on the Fall carryover side that we have already accounted for in our guidance and it's not on the Spring inventory side.

[ANALYST:] I just had one quick follow-up. It sounds like you're still expecting inventory to be up in store around 10% at the end of first quarter and that would seem to be still above a comp plan that you would predict for the second quarter.

[RAYDEN:] I think we've got a long way before we get to the end of April and a lot of things to happen before then, and I would like Limited Too's inventory maximum to be up no more than 5% in the right goods and if I really had my druthers, it would be up less than that depending on the base of the business of sales.

*   *   *

[ANALYST:] ***Hi. Looking at your 2007 earnings guidance and forecasted square footage growth, the guidance seems to imply that margins are***

> ***expected to decline. Can you talk about what's changing at the Company to cause the margin decrease?***
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> [CARBONE:] Hi, this is Paul, Jaime. ***Our margin decrease is really driven by events that we actually saw happen in the fourth quarter to us that shifted away from apparel into hard goods so hard goods would play a bigger role in both brands this year in 2007, and those traditionally carry lower IMUs, and they also carry a lower markdown rate, so that will certainly drive our margin rates down***. On the Spring side, we're looking at an enterprise level, gross margin rates generally flat, so I think that composition is merch margin rates will be down slightly due to mix. We will continue to leverage through B&O through store occupancy expenses as we've seen through Justice, getting the enterprise gross margin to a flat for the Spring.
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> * * *
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> [ANALYST:] ***Okay, and on the guidance as far as it relates to the full year of '07, can we assume that you're looking at kind of a positive low single comp rate in that, baked into that assumption on a full year basis?***
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> * * *
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> [RAYDEN:] Clearly, John, the way you got to look at this and we try to look at it depending on the corporate overhead is if we're going to have 15% square footage growth and everything would remain constant on an annual basis and we had a great Spring and a not as great Fall, we would probably just normally get a 15% relatively earnings per share growth if we didn't spend it all in expense. ***If you add, then on top of that, a low single digit comp and some corporate overhead, you still get the guidance that we have given which is the $2.25 a share at the top end of the guidance, so that's the way it works, so we think there's opportunity in margin and sales in the third and fourth quarter. Limited Too was flat in both. Justice we've seen no deceleration. Matter of fact, they're off to a spectacular start in February with the new first catazine, so we're pretty confident with our annual guidance and that annual guidance, that's not even getting much leverage***.

21. Between February 22 and February 23, 2007, defendant Rayden sold 64,598 shares of Tween stock at prices between $37.00 and $37.12 per share reaping $2,392,070 in insider trading proceeds. This sale represented 12% of his holdings at the time.

22. On May 23, 2007, Tween issued a press release entitled "Tween Brands Reports Record First Quarter Sales and Earnings Per Share." The press release stated in part:

> Tween Brands, Inc., today reported its operating results for the first quarter ended May 5, 2007, which included:
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> – First quarter net sales increased 14% to $223.2 million;

- First quarter earnings per diluted share increased 11% to $0.39, the 13th consecutive quarterly earnings increase;

- Return of $59.2 million to shareholders through the repurchase of 1.6 million common shares during the first quarter.

First Quarter Performance

Tween Brands delivered net income of $12.5 million, or $0.39 per diluted share, on net sales of $223.2 million for the first quarter ended May 5, 2007, compared to net income of $11.7 million, or $0.35 per diluted share, on net sales of $195.1 million for the first quarter 2006.

Tween Brands had a comparable store sales increase of 3% for the 2007 quarter, in-line with the company's previous guidance. Justice delivered a 22% increase in comparable sales for the 102 Justice stores that were open at least one year during the quarter. Comparable sales for Limited Too stores were flat.

"In the face of difficult sales comparisons with first quarter 2006, we are pleased with the first quarter results at Limited Too and Justice," said Mike Rayden, Chairman and CEO of Tween Brands.

The company's gross income rate for the 2007 quarter was flat with that for the like period in 2006. Store operating, general and administrative expenses as a rate of sales increased 90 basis points, primarily due to the introduction of three Justice catazines, their catalog within a magazine format.

Tween Brands' in-store inventories at the end of first quarter 2007 increased 8% on a cost per square foot basis compared to the end of the first quarter 2006.

Stock Repurchase

During the first quarter 2007, Tween Brands returned $59.2 million to shareholders with the repurchase in the open market of 1.6 million shares of common stock. The dollar value of the year-to-date repurchases approximates the total dollar value of repurchases for all of 2006.

Store Growth

Justice opened 25 stores during the first quarter 2007, ending the period at 184 stores, an increase of 82 stores on the 102 open at end of first quarter 2006. Justice remains on target to open a total of 100 new stores in 2007.

Limited Too opened ten new, closed three and remodeled six existing stores into the more contemporary Girl's World store format, ending the period at 570 stores. Limited Too continues to plan a net increase of 25 to 30 new stores and 40 to 50 remodels for 2007.

"Store growth for 2007 is a key component of our strategic plan for the company," said Mr. Rayden. "We intend to add more than a half million square feet to our store base in 2007, representing an increase of 17% to 19% over 2006."

Capital expenditures for the first quarter 2007 increased $9 million over first quarter 2006, to $23 million.

***Second Quarter and Full Year Outlook***

***For the second quarter of 2007, Tween Brands is projecting earnings per diluted share of $0.13 to $0.16. The earnings range assumes flat to slightly down comparable store sales, a decrease in the gross income rate of 30 to 60 basis points, and a similar basis point increase in store operating, general and administrative expenses as a rate of sales, primarily due to the continued introduction of Justice spring season catazines. The second quarter 2007 income tax rate is expected to be higher than that for the like period last year, which benefited from a favorable state tax settlement. The company expects store inventories at the end of the second quarter to be flat to down slightly on a cost per square foot basis when compared to end of second quarter 2006 inventories.***

***For fiscal 2007, Tween Brands reiterated its projected earnings per diluted share of $2.15 to $2.25, which would be a 10% to 15% increase on the $1.95 reported for fiscal 2006. The operating results for the 52 weeks of the 2007 fiscal year will be compared to those reported for the 53 weeks of the 2006 fiscal year.***

23. After issuing its first quarter 2007 financial results, Tween hosted a conference call for analysts, media representatives and investors, during which defendants represented the following:

[RAYDEN:] Given the head winds in comp sales comparisons faced by both of our divisions, we are pleased with our operating results for the first quarter. We met our projections on comp sales and earnings per share, even when excluding the lower tax rate. Our end of quarter inventories, while still high at Limited Too, came in at a level below that projected in our February conference call. We believe so much in our short-term and long-term strategies that we repurchased $59 million worth of our stock in late February and March, nearly as much as we purchased in all of 2006.

***Jill Dean and her team at Limited Too have done and continue to do a good job. All of us know that we hurt ourselves with the level of inventory at stores throughout the quarter. The good news about first quarter inventories at Limited Too is that they are clean and well managed. It's been clear to us that throughout the quarter, investors have been concerned about Limited Too's inventories.*** The unfortunate consequence is that investors have looked past the ongoing success of Justice. Sally Boyer and her Justice team continue to meet or exceed our expectations. Acceptance of the Justice brand, response to our marketing, and the trajectory of our growth are all positive indicators for this increasingly successful concept.

Tween Brands is projecting square footage growth of 17 to 19% and much of that is coming from Justice. We are on target to open 100 Justice stores, almost 50% more stores than we did last year. We have all of those store openings on our schedule and have a significant number of deals already for 2008 in process. Limited Too has its own real estate growth story, with a net increase of 25 to 30 new stores planned this year and the remodeling of 40 to 50 older format stores also expected.

In marketing, both Justice and Limited Too are introducing mini catazines to their circulation plans. These are roughly 5 by 8-inch 20 page mailers highlighting the latest summer styles. The Justice mini catazine is in homes now, featuring their best looks that are part of Justice's Summer Stock-up Sale. Limited Too's mini catazine will be in homes beginning June 11, featuring the freshest looks in skimps, leggings, baby doll tops and patchwork plaid shorts, all part of our summer transition mini floor set beginning June 14. Limited Too customers will be able to order from the mini catazine, as well as online, just as with our full-size catazines. Limited Too's direct sales, catalog and web, experienced at 33% increase during the first quarter. Growing our direct sales, including the launch of eCommerce at Justice next year, are key strategic initiatives.

***Our outlook for second quarter is appropriately, we believe, conservative. As with the first quarter, both Limited Too and Justice face difficult comp sales comparisons with second quarter 2006. Accordingly, we are assuming flat to slightly down comparable store sales for Tween Brands. We are also assuming a 30 to 60-basis point decrease in the gross income rate and an increase in the SG&A rate in the same basis point range. Attributable primarily to the continuing introduction of spring season Justice catazines.***

And lastly, regarding second quarter earnings, we delivered a 30.2% effective income tax rate last year, as a result of a favorable state tax settlement. We expect our second quarter 2007 tax rate to be closer to 38%. ***With all of these considerations, we are projecting second quarter earnings per diluted share of $0.13 to $0.16. For the full year 2007, we are reiterating our previous earnings guidance of $2.15 to $2.25 per diluted share, which would equate to a 10 to 15% increase on the $1.95 for the 53-week 2006.***

I'll just conclude my remarks by saying that we are well positioned for continued growth. We believe Limited Too is every bit as popular with the Tween girl and her mom as they have always been. They have the hottest fashions for the current season at the right price and Justice has already developed a loyal following of off the mall shoppers who want a store just for her.

* * *

[ANALYST:] ***Hi I was just wondering if you could talk about changes to the back to school calendar. Will there be changes to timing of floor sets, catazines or promotions that we should know about?***

[RAYDEN:] ***All the, all the timing changes are-- well, first off, there's a major change in the country in back to school timing in a number of the major***

***early states. So a number of stores are getting pushed back closer to Labor Day, so when schools go back is a rather dramatic change. Luckily it all still occurs in the third quarter, so whether it occurs in August, the beginning of or the end of, probably doesn't make a lot of difference.*** We have maintained all 5 of our Too Bucks and marketing groups that we've always, had but the number of stores within each group has changed drastically.

So other than that, and other than sort of the mini book launch as a new vehicle with pre-floor sets to these major floor sets, which we're doing in both businesses to keep a flow of newness and tell the customer about it is really the most dramatic change. Obviously other than any increased marketing books that we're doing in both and we do have increased marketing for both brands, both in catazine and direct marketing because in Limited Too, you've got three mini books and in Justice you've got – I think we've added another mini book and another major book as well. So it's more about the back to school timing.

*　　*　　*

[ANALYST:] Good morning, everyone. ***Can you talk a little bit about direct sourcing, how that's progressing, what percent of the mix it is, and also how that is contributing to gross margin, and if it differs for either division at all, and then also on the expectation for the gross margin for the second quarter, can you just clarify just to be a little more explicit, is the reason for the lower gross margin in Q2, is it more markdowns that you're anticipating, is it given potentially a lower margin Justice, or just IMU improvement is more limited going forward?*** Thank you.

[RAYDEN:] ***The penetration on direct sourcing for the quarter was approximately about 25%. It did positively impact the gross margin on the enterprise level in about the 20-basis point range, so we are growing, as we've talked before, the direct sourcing is growing, not only as a penetration, but as Justice adds 100 stores and Limited Too adds approximately 40 stores, the base is also growing, so we're getting it in both ways. On your gross margin question, it is a combination really of the top line being, we've guided to slightly down comps in that 30 to 60 basis points. It really is just the amount of leverage we're getting out of the Justice group and thereby in occupancy with a lower comp for the quarter. We're just not seeing the same degree we did in in [sic] Q1.***

*　　*　　*

[ANALYST:] Hi. ***Just a quick follow-up on the inventory. I was just wondering where you expected inventories to be at the end of the second quarter and if you were still on plan to implement your chase strategy by the end of the second quarter?***

[RAYDEN:] Yes, so I'm 20 minutes into the question and answer, first question on inventory is a good sign. ***We are projecting end of second quarter inventories at the enterprise level to be flat to slightly down on a square foot basis and as far as the chase strategy goes, I think these, as we, as we really look at***

> ***inventory management and not start the quarter off as heavy as we have in the past actually allows us to do more chase. So, yes, the chase strategy continues and will become even more important to the enterprise as we go into these next quarters and we're not front end loaded with inventory.***

24. On May 30, 2007, at the 2007 FBR Growth Conference, defendant Carbone reiterated the Company's previously announced earnings guidance for 2007.

25. Between June 8 and June 12, 2007, defendant Rayden sold 153,683 shares of stock at prices between $41.00 and $41.34 per share, reaping $6,314,009 in insider trading proceeds. This sale represented 32% of his holdings at the time.

26. Throughout June 2007, Tween's senior management, including defendants Rayden, Stevens and Carbone, met with various analysts and continued to tout the Company's business and its prospects going forward, reiterating guidance for 2007 and providing assurances about the Company's inventory controls and the potential for markdown risk. These positive statements about Tween's business and prospects caused its stock to rise, hitting its Class Period high of $46.54 per share on July 6, 2007.

27. Then, on August 22, 2007, before the market opened, Tween issued a press release entitled "Tween Brands Reports Second Quarter Sales and Earnings." The press release stated in part:

> Tween Brands, Inc., today reported its operating results for the second quarter ended August 4, 2007. As compared to the results for the second quarter ended July 29, 2006:
>
> – Net sales increased 15% to $213.7 million from $185.8 million attributable to a 15% increase in store count;
>
> – Comparable store sales decreased 2% versus a 10% increase for second quarter 2006. By brand, Justice comparable store sales increased 13%, while Limited Too's decreased 4%;
>
> – The gross income rate declined 170 basis points primarily due to a lower merchandise margin and higher buying and occupancy costs as a percentage of net sales;

- Store operating, general and administrative expenses as a rate of sales increased 120 basis points primarily due to higher marketing costs, principally from increased Justice catazine circulation;

- Net income for the 2007 quarter was $2.1 million, or $0.07 per share, compared to net income of $5.9 million, or $0.18 per share for the 2006 period; and

- Total inventories at the end of the 2007 quarter were up 5% per square foot at cost compared to inventories at the end of the 2006 period. However, in-store inventories were down 6% per square foot at cost, in-line with the company's previous guidance. The difference is attributable in part to inventory additions resulting from the company's higher level of direct sourcing.

***"Our sales for the quarter failed to meet our expectations in large part because we underestimated the impact of so many schools in our markets moving their back-to-school start dates later, as well as Texas and Florida shifting their state sales tax holidays from July to August," said Tween Brands Chairman and CEO Mike Rayden. "These shifts aggravated what had been a decline in retail traffic and lower store transactions throughout the quarter."***

Third and Fourth Quarter Outlook

The company said that it is estimating earnings per diluted share for the third quarter ending November 3, 2007 of $.40 to $.45, below the $.58 per diluted share reported for the like period last year. ***The principal reason for the comparatively lower forecasted range of earnings is a revised estimate of the calendar shift on the company's quarterly sales and earnings comparisons. In accordance with the 2007 retail calendar, the third quarter shifted the higher sales volume first week of August into second quarter, and moved the lower volume first week of November into third quarter. Also, Limited Too plans to take markdowns earlier in the season compared to last year to better position inventory going into fourth quarter***. The third quarter guidance assumes a consolidated comparable store sales percentage increase in the mid single digit range. By brand, that would equate to an increase for Limited Too in the low single digits and an increase in the mid teens for Justice. Additionally, Tween Brands said it expects in-store inventories at the end of the third quarter to be down in the mid single digit percentage range on a cost per square foot basis.

The company also said that it expects earnings per diluted share for the fourth quarter ending February 2, 2008 to be in the range of $0.94 to $1.04, which would be a 9% to 21% increase on the $0.86 per diluted share reported for fourth quarter 2006. The 2006 quarter included the benefit from an extra week and a lower effective tax rate as a result of favorable tax settlements during the period.

***As a result of Tween Brands' lower second quarter earnings and revised outlook on the third and fourth quarters, the company expects full-year earnings per diluted share of $1.80 to $1.95 compared to its previous guidance of $2.10 to***

> ***$2.25.*** The company reported earnings per diluted share of $1.95 for fiscal 2006, which comprised 53 weeks.
>
> Commenting on the revised earnings guidance, Mr. Rayden said, "While we are projecting positive comparable store sales for the third quarter at both of our brands, we remain cautious regarding the current trend in retail traffic and the continuing uncertainties in the U.S. economy."
>
> Tween Brands Store Growth
>
> Justice opened 29 stores during the second quarter 2007, ending the period at 213 stores, an increase of 98 stores on the 115 open at end of second quarter 2006. Justice is on target to open 100 to 105 new stores in 2007.
>
> Justice is also developing a larger format store that would be 15% to 25% bigger than the average store size today. The company said that the larger stores, the first of which should open in 2008, would allow Justice to expand existing merchandise categories, introduce new ones and increase the space used for their successful party business.
>
> Limited Too opened four new, closed one and remodeled 16 existing stores into the more contemporary Girl's World store format, ending the period at 573 stores. Limited Too continues to plan a net increase of 25 to 30 stores and 40 to 50 remodels for 2007.

28. On this news, Tween's stock collapsed $11.00 per share to close at $27.59 per share, a decline of 29% on volume of 8 million shares, 10 times the average three-month volume. This was the largest one-day decline of the Company's shares in almost seven years.

29. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Tween had bloated inventory which it could only dispose of at significant discounts at the Company's Limited Too stores;

(b) Tween's promotional activities and increased markdowns were significantly undercutting the profit margins at the Company's Limited Too stores;

(c) Tween's increased use of direct sourcing of its inventories did generate markdown risk and consequently was having a negative effect on margins;

(d) Tween's new inventory management system was not significantly improving Tween's inventory levels and the Company's inventory levels remained excessively high;

(e) The Company's existing stores were performing badly and any sales growth was coming from the development of new stores and not from a growth in same-store sales such that future results would not be anywhere near as high as the defendants led the market to believe;

(f) Tween's guidance miss on its second quarter 2007 results was not due to the Company's underestimation of the impact of the shifting of back-to-school start dates later or due to the impact of Texas and Florida shifting their state sales tax holidays from July to August, but was due to a fundamental decline in demand for its products;

(g) Similarly, Tween's downward revision of its third quarter 2007 guidance was not due to the Company's underestimation of the impact of the calendar shift moving the first week of August out of the third quarter and into the second, but was due to fundamental problems in Tween's business; and

(h) Given the increase in competition with discount and chain-stores, the Company had no reasonable basis to make the projections it did about its 2007 results. As a result, the Company's projections issued during the Class Period about its 2007 results were at a minimum grossly reckless.

30. As a result of defendants' false statements, Tween's stock price traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down 41% from their Class Period high.

## LOSS CAUSATION/ECONOMIC LOSS

31. By misrepresenting its business, the defendants presented a misleading picture of Tween's business prospects. Thus, instead of truthfully disclosing during the Class Period that

Tween's business was not as healthy as represented, Tween falsely represented the success of its initiatives.

32. These claims of profitability caused and maintained the artificial inflation in Tween's stock price throughout the Class Period and until the truth was revealed to the market.

33. Defendants' false and misleading statements had the intended effect and caused Tween stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $46.54 per share.

34. On August 22, 2007, defendants were forced to publicly disclose that Tween had failed to meet its projected second quarter 2007 guidance and that it would be reducing its full year 2007 guidance, causing its stock to drop to $27.59 per share.

35. As a direct result of defendants' admissions and the public revelations regarding the truth about Tween's business and its business prospects going forward, Tween's stock price plummeted on August 22, 2007 to $27.59 per share. This drop removed the inflation from Tween's stock price, causing real economic loss to investors who had purchased the stock during the Class Period.

## COUNT I

### For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

36. Plaintiff incorporates ¶¶1-35 by reference.

37. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

38. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Tween common stock during the Class Period.

39. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Tween common stock. Plaintiff and the Class would not have purchased Tween common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

**COUNT II**

**For Violation of §20(a) of the 1934 Act**
**Against All Defendants**

40. Plaintiff incorporates ¶¶1-39 by reference.

41. The Individual Defendants acted as controlling persons of Tween within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their ownership of Tween stock, the Individual Defendants had the power and authority to cause Tween to engage in the wrongful conduct complained of herein. Tween controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

**CLASS ACTION ALLEGATIONS**

42. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Tween common stock during the Class Period (the "Class"). Excluded from the Class are defendants.

43. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Tween has over 30.7 million shares of stock outstanding, owned by hundreds if not thousands of persons.

44. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether the 1934 Act was violated by defendants;

(b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or deliberately disregarded that their statements were false and misleading;

(e) whether the price of Tween common stock was artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

45. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

46. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

47. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

## PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

B. Awarding plaintiff and the members of the Class damages, including interest;

C. Awarding plaintiff reasonable costs and attorneys' fees; and

D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

## JURY DEMAND

Plaintiff demands a trial by jury.

DATED: September 13, 2007

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Attorneys for Plaintiff

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CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS

JOHN SEFLER ("Plaintiff") declares:

1. Plaintiff has reviewed a complaint and authorized its filing.

2. Plaintiff did not acquire the security that is the subject of this action at the direction of plaintiff's counsel or in order to participate in this private action or any other litigation under the federal securities laws.

3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary.

4. Plaintiff has made the following transaction(s) during the Class Period in the securities that are the subject of this action:

**Acquisitions:**

| Date Acquired | Number of Shares Acquired | Acquisition Price Per Share |
|---|---|---|
| 3/12/2007 | 400 | $ 35.18 |
| | | |
| | | |

**Sales:**

| Date Sold | Number of Shares Sold | Selling Price Per Share |
|---|---|---|
| | | |
| | | |
| | | |

5. Plaintiff has not sought to serve or served as a representative party for a class in an action filed under the federal securities laws except as detailed below during the three years prior to the date of this Certification:

6. The Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond the Plaintiff's pro rata share of any recovery,

except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct. Executed this 10 day of SEPT., 2007.

John Seffler

JOHN SEFFLER